

Public Services Program

INTRODUCTION

The Montgomery County Charter (Section 302) requires the County Executive to submit an annual comprehensive six-year program for public services and fiscal policy called the Public Services Program (PSP). The PSP includes:

- a statement of program objectives,
- recommended levels of public service,
- an estimate of costs over the six-year period,
- a statement of revenue sources,
- estimated impact of the PSP on County revenues and the capital budget, and
- projection of revenues and expenditures for all functions of the County government.

The Charter requires that the annual budget, submitted in conjunction with the PSP, be consistent with the six-year program. This section describes the County Executive's Public Services Program and provides projections relating to *tax supported* funds (see below). Six-year projections for all funds and for selected programs may be found in the relevant sections of this budget document along with more specific information on programs, expenditures, and revenues. This section is organized to address each of the PSP areas described above and summarizes the PSP across tax supported funds.

PROGRAM OBJECTIVES

Long-term fiscal planning provides the community and its representatives with the ability to make informed decisions about the levels of public services. Frequent changes in economic and social conditions, governmental goals and objectives, and the outcome of previous policies and programs make it difficult to accurately predict the future course of County fiscal policy and decisions. Budgets are reviewed annually and are subject to mid-year changes if necessary. Therefore, long-term projections are not intended to predict what *will* happen, but what *may* happen as a result of current decisions and policies. Fiscal projections may also offer information on the consequences of potential changes in either policy or external conditions. Fiscal Policy for the Operating Budget and Public Services Program is included as a separate section in this document.

The Public Services Program Content

Program goals and objectives are provided in the mission statements and program descriptions contained in the various agency and department sections of the document. Program budgeting within departments is used as the basis for budget allocations. Each program is described in terms of its objectives, activities, the services being provided, and the resources required. Selected programs are accompanied by program measures that will be published in a separate document, "Montgomery Measures Up!", in April. For other government agencies

Tax Supported Funds:	Non-Tax Supported Funds:
MCPS: Current Fund	MCPS: Grant, Food Service, Adult Education, and other Enterprise Funds.
Montgomery College: Current and Emergency Repair Funds	Montgomery College: Grant, Continuing Education, Cable Television, and Auxiliary Funds.
M-NCPPC: Administration, Parks, and ALARF Funds	M-NCPPC: Grant, Enterprise, Property Management, and Special Revenue Funds
Montgomery County Government: General, Recreation, Urban Districts, Noise Abatement Districts, Mass Transit, Fire Tax District, and Economic Development Funds	Montgomery County Government: Grant, Solid Waste (Collection, Disposal, and Leafing), Parking Districts, Cable Television, Liquor Control, Permitting Services, Community Use of Public Facilities, Water Quality Protection, and Montgomery Housing Initiative Funds
Debt Service associated with General and Special Tax Supported Funds	Debt Service associated with Non-Tax Supported Funds
Current Revenue to the CIP (including PAYGO)	HOC and Revenue Authority
Revenue Stabilization Fund contributions	WSSC

(Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, and Washington Suburban Sanitary Commission), missions are generally stated as goals, with agency programs supporting those goals.

Recommended levels of public service for all programs are expressed in the recommended allocation of dollars and workyears budgeted for the upcoming fiscal year and in program measures where such measures have been developed. Longer-term needs assessment and planning for individual programs and functions of government are detailed in numerous plans, studies, and reports initiated by individual departments and agencies.

LEVELS OF SERVICE

Recommended levels of public service can be seen in the six-year projections of expenditures for each special fund. Expenditures are projected based on major, known commitments. Actual costs, over time, are the result of several variables, including collective bargaining, government policy, and objectives of fairness between agencies and employee groups. Moreover, while annual cost per employee may increase over time, increased employee productivity may enable some staff reductions while maintaining service levels.

An estimate of the impact of the Public Services Program on County revenues is included, where applicable, in the program descriptions or in the fiscal data for the department or agency. Impact on the program of the Capital Budget is included, where applicable, in the program descriptions; Future Fiscal Impacts; or in facility plans, when the program or service delivery will require expanded, additional, or replacement facilities that are scheduled in the Capital Improvements Program (CIP).

Projections of County revenues relative to anticipated expenditure requirements constrain the level of public services affordable. The PSP looks to balance the growth in revenues, based on the County Executive's current revenue policies, with the pressures affecting the future cost of services. Fiscal planning regarding future costs should consider each of the following:

- Rapidly changing requirements for services. These result from population growth, demographic change, State and Federal mandates which require local funding, and changing social needs and demands.
- Major fluctuations in the economy. These can have dramatic impact on revenues available. Many of these shifts may occur without sufficient warning to enable adequate program or fiscal planning adjustments.
- The impact of program and facility expansions. The County's capacity to finance public facilities through long-term debt is limited to prudent debt levels. Both

operating programs and the facilities they use often create annual operating costs that increase over time.

- Changes in the way government provides services. Changes in government structure; processes; use of resources; and alternative ways of providing service, such as out-sourcing and public-private partnerships, are now considered throughout the County government.
- Multi-year planning for special funds. Many government services, such as solid waste disposal and mass transit, operate in ways similar to a private enterprise and must be managed in much the same way to remain cost effective. Fees, cost components, and capital financing all have multi-year dimensions and are included in each fund projection indicating levels of operation, rates, and construction scheduling.

ESTIMATING SIX-YEAR COSTS

Potential Factors

The revenue projections of the PSP incorporate demographic assumptions based on Council of Governments Round 6.4 estimates, as prepared by M-NCPPC, and are based on fiscal and economic data and analyses prepared by the Department of Finance.

- County population, which was 918,000 in 2003, will continue to increase an average of 11,500 persons each year throughout the next six years reaching one million by 2010. This reflects an average annual growth rate of 1.3 percent which is identical to the average annual growth rate during the late 1990s.
- There were an estimated 337,300 households in the County in 2003. Household growth throughout the next six years is now projected to range between 4,600 to 4,700 units each year, which translates into a growth rate of 1.4 percent annually. As a result, current projections estimate 370,00 households by the year 2010.
- County births, which are one indicator of future elementary school populations and child day care demand, are now projected to gradually increase, from an estimated 13,200 in 2003 to 13,500 by 2009.
- Montgomery County Public School enrollments are projected to increase over the next six years. However, the County can expect to see the rate of growth in school enrollment drop from 1,970 new students in FY06 to as few as 418 in FY09.
- Montgomery College enrollments are projected to increase from 22,640 in September 2004 to 24,336 in September 2009 (FY10). These estimates are based on a continuation of growth in fall enrollment.
- Other potential factors.

Using moderate economic and demographic assumptions to develop fiscal projections does not mean that all possible factors have been considered. It is likely that entirely unanticipated events will affect long-term projections of revenue or expenditure pressures. Although they cannot be quantified, such potential factors should not be ignored in considering possible future developments. These potential factors include the following:

- Changes in the level of local economic activity,
- Federal economic and workforce changes,
- State tax and expenditure policies,
- Federal and State mandates requiring local expenditures,
- Devolution of Federal responsibilities to states and localities,
- Local tax policy changes,
- Changes in financial markets,
- Major demographic changes,
- Military conflicts and acts of terrorism, and
- Major international economic and political changes.

Policy Assumptions

Revenue and resource estimates presented are the result of the recommended policies of the County Executive for the FY05 budget. Even though it is assumed that these policies will be effective throughout the six-year period, subsequent Council actions, State law and budgetary changes, actual economic conditions, and revised revenue projections may result in policy changes in later years.

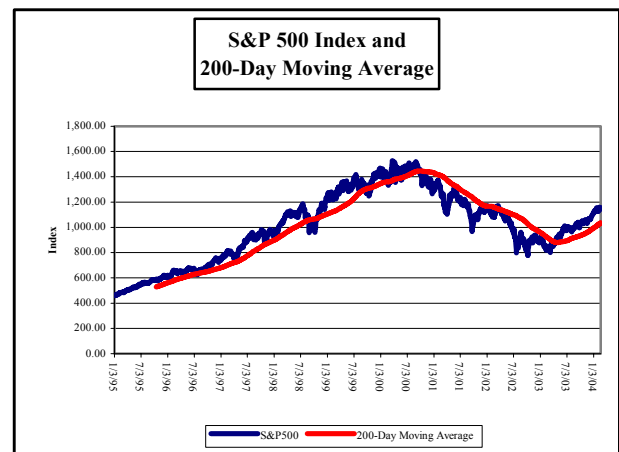
Economic Assumptions

Revenue projections depend on the current and projected indicators of the national and local economy. National economic indicators also influence the County's revenue projections. Such indicators include short-term interest rates, mortgage interest rates, and the stock market. Local economic indicators include employment, retail sales, housing sales, residential and nonresidential construction, inflation, and consumer confidence. The assumptions for each of those indicators will affect the revenue projections over the six-year horizon. Because of the large presence of the federal government, both in terms of employment and procurement, Montgomery County's economy does not experience the volatility that is experienced nationally. Nevertheless, the County's economy is impacted by major fluctuations in federal spending and employment. For example, between 1992 and 1999, when the nation experienced significant economic growth, the County lost almost 6,400 federal jobs or 1.4 percent of the workforce. Through direct employment, grants in aid, and procurement, the federal government remains the largest sector in the region and represented 30 percent of the County's economy in 2003.

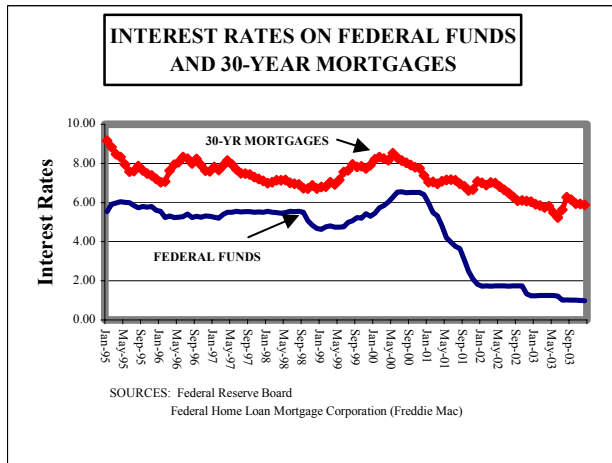
The economic projections for the next six fiscal years assume a slow but sustainable growth rate. However, such projections are dependent on a number of factors – a stimulative federal budget policy, consumer and business confidence, an accommodative Federal Reserve policy, an expanding stock market, and a reduction in current geopolitical risks, especially international terrorism.

The national economy experienced remarkable growth during calendar year 2003. For the year, real gross domestic product (GDP) grew 3.1 percent with much of the growth attributable to consumer spending, business investment, and national defense. The economy in 2004 will depend, in large measure, on whether the consumer increases spending and business investment continues to expand after two years of decline. Prospects for economic growth are projected to continue into 2004 with real GDP expected to increase 4.6 percent. Total national payroll employment, on the other hand, is expected to increase a meager 1.0 percent year-over-year. Inflation is expected to remain subdued throughout 2004 with the overall inflation rate increasing 1.6 percent.

One of the most significant improvements in the national economy during 2003 was the recovery in the stock market. After three years of decline, the first such occurrence since the 1939-41 period, the Standard & Poor's (S&P) 500 index increased 26.4 percent during 2003, the first such increase since 1999. As the chart below illustrates, the recovery in the S&P 500 began late March 2003, when the index was above the bellwether 200-day moving average and has consistently remained above that average for the first time since the late summer of 2000. Other indices exhibited significant gains as well. The Dow Jones Industrial Average (DJIA) increased 25.3 percent, the National Association of Securities Dealers Automated Quotation system (NASDAQ) increased a dramatic 50.0 percent, and the Russell 2000, which represents a composite of small capitalization stocks, increased 41.9 percent. Such growth across a breadth and depth of stocks suggests that capital gains also improved during 2003.



Another improvement in the national economy has been the dramatic decline in short-term and mortgage interest rates over the past three years. Because of the accommodative policy of the Federal Reserve, short-term interest rates, particularly the rate on federal funds, have reached their lowest levels in 45 years. At the same time, interest rates on 30-year fixed rate mortgages have dropped over 260 basis points from their recent high of 8.5 percent in May 2000 to 5.9 percent as of December 2003. Such a significant decline in mortgage rates has helped fuel a demand for housing in the County as well as across the nation.



Montgomery County experienced stronger economic growth in 2003 compared to 2002. Although the County may have avoided a recession in 2001, economic activity in the County during the recovery period of 2002 and 2003 has not been stellar. The primary reasons for the County's meager economic improvement during 2002 and 2003 have been the lack of significant growth in private-sector jobs (2002) and a contraction in the growth of residential and non-residential construction (2003). As with the nation, inflation in the Washington-Baltimore region continues to remain subdued while housing prices continue their meteoric rise.

A number of economic indicators for the County during 2003 experienced either modest improvement or weak performance. Foremost among the indicators that exhibited weak performance was payroll employment. After growing an average of 3.6 percent between 1997 and 2002, total payroll employment grew only 1.4 percent during 2001, declined 0.1 percent in 2002, and increased a meager 0.3 during the first six months of 2003. While the presence of the federal government, both in terms of employment and procurement, can have an effect on the County's economy, it represents only 9.0 percent of the County's total employment. Jobs in the private sector, which represents over 80 percent of total employment, declined in 2002 but increased modestly during the first half of 2003. Such a dismal performance of private sector employment over the past year and a half followed the national trend.

Retail sales recovered from a weak performance during 2002 and grew 4.0 percent during 2003. After growing 6.1 percent and 6.6 percent during 1999 and 2000, respectively, sales grew 3.8 percent in 2001 and less than 1.0 percent during 2002. The effects of weak payroll employment figures over the past three years have reduced the growth in consumer spending in the County compared to the late 1990s.

New construction in the County in 2003 was not the bright spot that it had been for the prior two years. Non-residential construction reflected in the number of starts, square footage, and dollar value declined significantly compared to 2001 and 2002. The number of new residential projects also declined significantly in 2003 with a drop of 50.0 percent in the number of single-family units built compared to 2002 and a similar drop in the value of new construction. Vacancy rates for office space in the County continued to increase reaching 10.9 percent for Class A property.

It is against this backdrop of mixed economic indicators during 2003, that the Department of Finance has estimated projections for a number of economic indicators such as employment, personal income, inflation, and yields on investment income. Such estimates show a much slower pace of growth in employment and income compared to the late 1990s and early 2000s and much lower yields on investment attributed to the accommodative policy of the Federal Reserve Board.

Since the 1990-91 recession, total payroll employment in Montgomery County has experienced three distinct cycles: modest growth from 1992 to 1996 of 1.3 percent per year, significant growth from 1996 to 2001 of 3.1 percent per year, and very weak growth since 2000. Between 1992 and 1996, an average of 4,750 jobs per year was created in the County. Between 1996 and 2001, the average number of jobs accelerated to almost 13,000 per year. During 2002, the County's total payroll employment declined by almost 700 jobs, but rebounded during the first half of 2003. During the first half of 2003, total payroll employment increased by 1,130 jobs with most of the gain occurring during the month of June. Gains during the first half of 2003 were attributed to modest increases in the public sector (+700 jobs) and the private sector (+430 jobs). Employment is one of the most important economic drivers in determining the economic condition and outlook for Montgomery County. The employment situation and actual and potential job growth affect personal income, retail sales, the housing market, and new construction and development. In turn, personal income, the housing market, and new construction affect the revenue capacity of the County in the near- and long-term.

Based on this assessment of the employment situation in Montgomery County, the Department of Finance assumes that employment will grow at a rate comparable to the early to mid-1990s of approximately 1.5 percent per year, as opposed to the rapid growth experienced during the late

1990s and early 2000s. However, the number of jobs is one indicator of the employment situation in the County, the other important factor is the growth in wages and salaries.

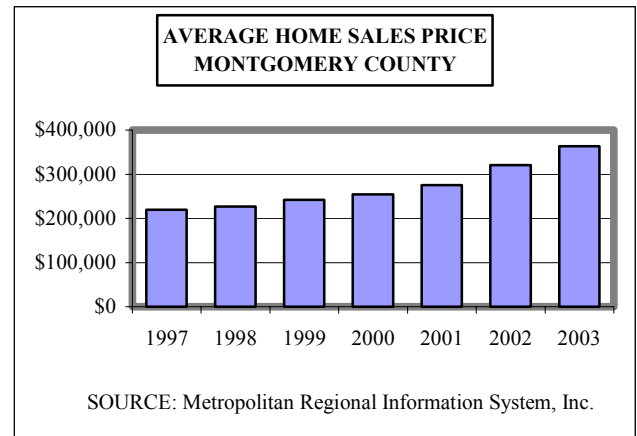
From 1996 through 2001, the average weekly salary of employees in Montgomery County increased an average of 5.0 percent per year. However, reflecting weaker labor market conditions, wage growth decelerated to less than 3.0 percent during 2002. Such deceleration continued during the first half of 2003, with average weekly wages increasing only 2.5 percent during the first quarter compared to the first quarter of 2002, and 2.6 percent during the second quarter compared to the same period in 2002. Such deceleration in the growth of wages coupled with the weak growth in payroll employment suggests that total personal income for the County will continue to grow at a much slower pace during the decade compared to the latter part of 1990s and early 2000s.

While the employment situation in the County was not stellar during the first half of 2003, the County's unemployment rate remained well below the region, state, and national average. For December of 2003, the County's rate at 2.3 percent was 1.8 percentage points below the state average of 4.1 percent and 3.1 percentage points below the national average of 5.4 percent. Although the County employment base may not be growing at a significant pace, the unemployment rate suggests that the public sector, both federal and local, is providing a stable foundation against significant volatility in the labor market.

With weak employment and wage growth in the County during the first half of 2003, the Department of Finance assumes that total personal income will grow at an average rate of less than 5 percent per year from 2004 through 2010. This rate is slightly above the average rate of 4.5 percent between 1992 and 1997 but well below the average rate of 7.8 percent between 1998 and 2001, a period of phenomenal employment and income growth for the County. If employment or wages and salaries grow at a stronger pace than is currently assumed, then personal income may exceed the average annual growth rate of 5.7 percent during the 1990s.

The housing market in Montgomery County continues to be a remarkable story. It remains an economic puzzle when compared to other economic indicators during the recent business cycle. When the national economy was experiencing a recession and weak recovery and expansion during the past three years, the housing market in Montgomery County experienced an 11.0 percent growth in sales and price appreciation of 42.8 percent. During 2003, the sale of homes in the County increased 2.9 percent for the year while average prices continued their dramatic increase at 13.2 percent. This follows a year when housing sales increased 3.4 percent and average prices increased 16.6 percent. Such a remarkable pattern can be attributed to two factors: historic low mortgage rates and a limited supply of housing in the County. The

decline in mortgage interest rates over the past two to three years has offset the price increases. Such an offset in home financing has increased the demand for housing while the lack of supply has driven up prices.



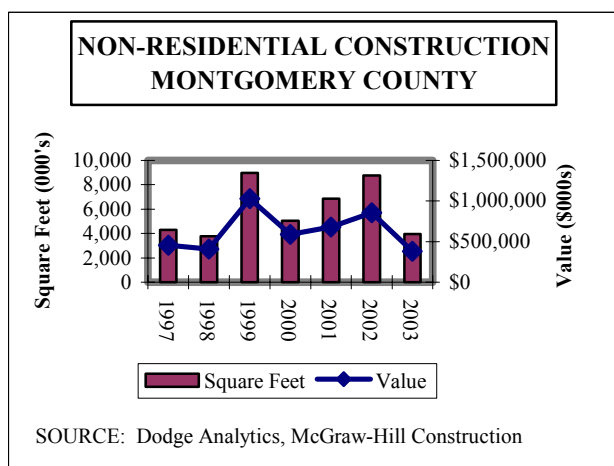
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore consolidated statistical metropolitan area remained subdued during 2003. Consumer prices increased 2.8 percent in the region compared to 2.4 percent during 2002. The core inflation rate, which is the CPI less the volatile food and energy prices, increased 2.4 percent during 2003, which was lower compared to the rate of 2.9 percent during 2002. The Department of Finance assumes that inflation will continue to remain subdued during the next six years with an average inflation rate of 2.4 percent, which is below the current rate. However, if either a geopolitical event attributed to the continued war on terrorism that may lead to potential disruptions in the supply of oil or a harsh winter that occurred last year, the price of fuel and energy may increase significantly in the near term pushing inflation above the expected average.

Using sales tax receipts as a measure of the level of retail sales for the County, sales increased 4.0 percent during 2003 compared to the same period in 2002. The sale of nondurable goods, which includes food and beverage, apparel, general merchandise, and utilities and transportation, increased 4.9 percent compared to an increase of 3.6 percent for durable goods. With growth in total payroll employment in 2003 and 2004 remaining below the rates experienced during the late 1990s and early 2000s, the Department of Finance assumes that the growth in retail sales in 2004 should mirror 2003 with purchases of nondurable goods growing faster than purchases of durable goods.

Construction is a cyclical activity that can have a significant effect on a local economy and employment owing to secondary and tertiary effects on construction supply and services industries. Starts and permits are key indicators of the near-term economic condition of the housing industry and are considered leading indicators for

the local economy. Of lesser note, new single-family home sales and construction outlays are important indicators for monitoring the level of current investment activity. Construction starts measure initial construction activity as opposed to construction permits, which measure planned activity. However, starts and permits closely track each other and as such, a moving average provides a more reliable indicator of the housing trend compared to month-to-month changes. Construction outlays are the value of new construction put in place. In contrast to permit and start information, outlays refer to actual construction rather than planned (permits) or initiated (starts) activity. The primary source of such data is Dodge Analytics of McGraw-Hill Construction.

The boom in non-residential construction that occurred in 2001 and 2002 ended in 2003. Non-residential construction in the County declined in the number of construction starts, the amount of square footage added to existing capacity, and a drop in the dollar value of construction. The number of starts declined to less than 300 in 2003 compared to over 400 construction starts in 2002 (-26.4%). After adding an average of 7.8 million square feet of capacity in 2001 and 2002, only 4.0 million square feet were added in 2003, a decline of 49.0 percent. The decline in non-residential construction occurred across most types of properties with office and bank property declining 57.0 percent and garages and service stations declining 50.0 percent. Other sectors that experienced declines included the education and science facilities, and hospital and health treatment facilities.



With the expansion of non-residential capacity during 2001 and 2002, vacancy rates in the County have also risen. Although slightly lower than some jurisdictions in the Washington metropolitan area, the rate for Class A office space quadrupled from a low of 2.5 percent in December 2000 to 10.9 percent by December 2003. This reflects an inventory of 3.5 million square feet of vacant office space. Compared to other local jurisdictions, Fairfax County has a vacancy rate of 13.8 percent with 9.7 million square feet of vacant office space, the City of

Alexandra and Arlington County have a vacancy rate of 10.9 percent with 2.7 million square feet of vacant office space, and the District of Columbia has a vacancy rate of 6.2 percent with 3.8 million square feet of vacant office space in December 2003. Such an increase suggests that the rate of non-residential construction will continue to slow in the near term in order to balance supply with demand.

The number of new residential projects also declined dramatically in 2003. The number of construction starts dropped 49.0 percent in 2003 and total new square footage declined 44.0 percent. The value of the projects declined from \$802.5 million in 2002 to \$567.7 million in 2003. The number of new one-family houses built in Montgomery County fell sharply from 4,172 units in 2002 to 2,096 in 2003 (-49.8%) and to less than half the number of new units required to accommodate annual household growth. The weak growth in the number of new residential starts was the result of modest growth in the formation of households. Maryland National Park and Planning Commission (M-NCPPC) estimates that the number of households in the County will increase 1.3 percent per year over the next six years compared to a 1.4 percent annual growth rate experienced during the late 1990s through 2003.

The Federal Reserve Board through its Federal Open Market Committee (FOMC) has been very aggressive and accommodative in reducing both the discount rate and the target rate for federal funds to historic lows. Currently the discount rate of 0.75 percent is the lowest in over fifty years, and the federal funds rate at 1.00 percent is the lowest in 45 years. Because of the FOMC's accommodative policies the investment yield on short-term financial instruments has reflected such low interest rates. The Department of Finance estimates that yields on the County's short-term money market investments will steadily increase from 1.12 percent in FY04, to 2.30 percent in FY05, and eventually to 5.50 percent by FY10.

Demographic Assumptions

The scenario is based on demographic assumptions resulting from COG Round 6.4 estimates as projected by M-NCPPC. This forecast predicts that the County will continue to experience moderate population growth in the range of 1.1 to 1.3 percent annually, with slightly stronger growth in the first three years of the forecast period. In addition to a net expansion of the base, much of the expected increase in population will result from immigration primarily from nations in Asia and Latin America. This results in a rise of population from an estimated 918,000 in 2003 to 1,000,000 in 2010. Besides general population changes, demographic forecasts anticipate a continuing increase in school-age population and, hence, public school enrollment.

REVENUE SOURCES

The major revenue sources for all County funds of the Operating Budget and the Public Services Program are described below. Revenue sources which fund department and agency budgets are included in the respective budget presentations. Six-year projections of revenues and resources available for allocation are made for all County funds. This section displays projections of total revenues available for the tax supported portion of the program. Tax supported funds are those funds subject to the Spending Affordability Guideline (SAG) limitations. The SAG limitations were designed and intended to provide guidance prior to the preparation of the recommended budget as to the level of expenditure that is affordable based on the latest revenue estimates.

The PSP also includes multi-year projections of non-tax supported areas. These funds represent another type of financial burden on households and businesses and, therefore, should be considered in determining the "affordability" of all services that affect most of the County's population. Projections for non-tax supported funds within County government are presented in the budget section for each of those funds. A Taxpayer Burden Chart (in the Highlights Section) displays the total burden on the average household taxpayer and business including solid waste and water and sewer charges.

IMPACT ON REVENUES AND THE CAPITAL BUDGET

The use of resources represented in this section includes appropriations to the Operating Funds of the various agencies of the County as well as other resource requirements, such as current revenue funding of the Capital Budget, Debt Service, and Fund Balance (operating margin). These other uses, commonly called "Non-Agency Uses of Resources," affect the total level of resources available for allocation to agency programs. Some of these factors are determined by County policy; others depend, in part, on actual revenue receipts and expenditure patterns.

The level of PSP-related spending indirectly impacts the local economy and, hence, the level of County revenues. However, the effect on revenues from expenditures of the Executive's Recommended Operating Budget and PSP are expected to be minimal. The PSP also impacts revenues available to fund the Capital Budget. The revenue projections included in this section subtract projected uses of current revenues for both debt eligible and non-debt eligible capital investments. Therefore, the Executive's Recommended Operating Budget and PSP provides the allocations of annual resources to the Capital Budget as planned for in the County Executive's Recommended FY05-10 CIP (as of January 15, 2004). These allocations will vary because of adjustments to current revenues for the CIP as part of the Executive's Recommended Operating Budget.

Prior Year Fund Balance

The prior year fund balance for the previous fiscal year is the audited FY03 closing fund balance for all tax supported funds. The current year fund balance results from an analysis of revenues and expenditures for the balance of the fiscal year. Prior year fund balance for future fiscal years is assumed to equal the target fund balance for the preceding year.

Net Transfers

Net transfers are the net of transfers between all tax supported and non-tax supported funds in all agencies. Usually, the largest single items are the earnings transfer from the Liquor Control Fund to the General Fund and the transfers for indirect costs from the non-tax supported funds. These are offset in part by transfers to non-tax supported funds, the largest of which is the transfer from the General Fund to Montgomery Housing Initiative to support the Executive's housing policy. The payment from the General Fund to the Solid Waste Disposal Fund for disposal of solid waste collected at County facilities is the next largest transfer to a non-tax supported fund. In FY05, the largest transfer from tax supported funds to non-tax supported funds is the transfer of over \$35.5 million from the General Fund to the Capital Fund reserve. This transfer was required to comply with the terms of Council Bills 24-03 and 40-03, Recordation Tax – Use of Funds. These bills required that all recordation tax revenues collected as a result of the rate increase approved by the County Council in FY03 must be used exclusively for either Public Schools construction projects or Montgomery College Information Technology projects. The level of transfers is an estimate based on individual estimates of component transfers.

Debt Service Obligations

Debt service estimates are those made to support the County Executive's Recommended FY05-10 Capital Improvements Program. Debt service obligations over the six years are based on servicing debt issued to fund planned capital projects, as well as amounts necessary for long-term leases. Debt service requirements have the single largest impact on the Operating Budget/Public Services Program by the Capital Improvements Program. The Charter-required CIP contains a plan or schedule of project expenditures for schools, transportation, and infrastructure modernization. Approximately 62 percent of the CIP is funded with G.O. bonds. Each G.O. bond issue used to fund the CIP translates to a draw against the Operating Budget each year for 20 years. Debt requirements for past and future G.O. bond issues are calculated each fiscal year, and provision for the payment of Debt Service is included as part of the annual estimation of resources available for other Operating Budget requirements. As Debt Service grows over the years, increased pressures are placed on other PSP programs competing for scarce resources.

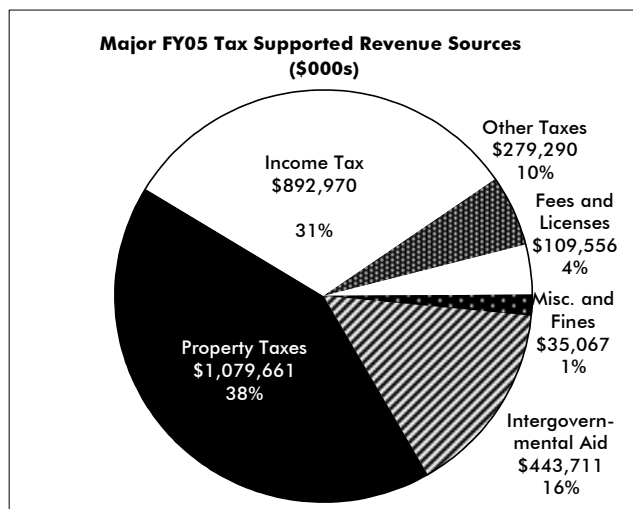
In accordance with the County's Fiscal Policy, these obligations are expected to stay manageable, representing less than 10.0 percent of General Fund expenditures. Maintaining this guideline ensures that taxpayer resources are not overextended during fiscal downturns and that services are not reduced over time due to increased Debt Service burdens.

The State authorizes borrowing of funds and issuance of bonds up to a maximum of 6.0 percent of the assessed valuation of all real property and 15.0 percent of the assessed value of all personal property within the County. The County's outstanding G.O. debt, plus short-term commercial paper, plus the Maryland Industrial and Commercial Redevelopment Fund (MICRF) loan, as of June 30, 2003, is 1.6 percent of assessed value, well within the legal debt limit and safely within the County's financial capabilities.

CIP Current Revenue and PAYGO

Estimates of transfers of current revenue and PAYGO to the CIP are based on the most current County Executive recommendations for the Capital Budget and CIP. These estimates are based on programmed current revenue and PAYGO funding in the six years, as well as additional current revenue amounts allocated to the CIP for future projects and inflation.

Revenue Stabilization



Mandatory contributions to the Revenue Stabilization Fund (Rainy Day Fund) are made if certain revenues increase above their budgeted projections and/or if projected revenue growth is stronger than in a selected historical period. Revenues include County Income Tax, Transfer Tax, Recordation Tax, and General Fund Investment Income. The projection assumes that a mandatory transfer of \$8.8 million will be made to this fund at the end of FY04 reaching a fund balance of \$95.5 million, which is the result of higher than previously estimated income tax revenues and transfer and recordation taxes. However, the projection for FY05

assumes that no mandatory transfer will be made to this fund at the end of the fiscal year. Because of higher than expected revenue collections six years in a row, in addition to the two discretionary transfers made in FY95 (\$10.0 million) and FY96 (\$4.5 million), the Revenue Stabilization Fund reached its maximum allowable fund size of \$87.2 million at the close of FY02 with a mandatory contribution of \$7.7 million. However, because revenues from the income tax and investment income fell below budget estimates in FY03 and were not offset by the increases in the transfer and recordation taxes, there was no contribution to the fund at the end of FY03. Therefore the allowable fund size remained at \$87.2 million at the close of FY03.

Since the fund has reached more than half of its maximum fund size, interest earned from the fund must fund PAYGO expenditures in the CIP fund. The estimate of the interest in FY04 is \$1.0 million. A similar funding of PAYGO from earned interest was made in FY98 (\$1.9 million), FY99 (\$3.0 million), FY00 (\$3.4 million), FY01 (\$4.8 million), FY02 (\$2.2 million), and FY03 (\$1.4 million). Due to a projected growth in revenues, the maximum allowable fund size is projected at \$122.1 million by FY10. However, barring future discretionary or mandatory contributions to the fund, the fund will remain at the current \$95.5 million level in FY10.

Other Uses

This category is used to set aside funds for such items as possible legal settlement payments and other special circumstances such as set-aside of revenues to fund future years.

Reserves

The County will maintain total reserves for tax supported funds that include both an operating margin reserve and the Revenue Stabilization Fund (or "Rainy Day Fund"). For tax supported funds, the budgeted total reserve of the operating margin and the Revenue Stabilization Fund should be at least 6.0 percent of total resources (i.e., revenues, transfers, prior year undesignated and designated fund balance).

REVENUE ASSUMPTIONS

Projections for revenues are included in six-year schedules for County Government Special Funds and for Montgomery College, M-NCPPC, and WSSC in the relevant sections of this document. See the MCPS Budget Document for six-year projections of MCPS funds. Projections for revenues funding County government appropriations are provided to the Council and public as fiscal projections. Such projections are based on estimates of County income from its own sources such as taxes, user fees, charges, and fines, as well as expectations of other assistance from the State and Federal government. The most likely economic, demographic, and governmental

policy assumptions that will cause a change in revenue projections are included in this section.

TAX REVENUES

Tax-supported revenues come from a number of sources including but not limited to property and income taxes, real estate transfer and recordation taxes, intergovernmental revenues, service charges, fees and licenses, college tuition, and investment income. In order of magnitude, however, the property tax and income tax are the most important with 38.0 and 31.0 percent, of total tax-supported revenues in FY05, respectively. The third category is the combined real estate transfer and recordation taxes with a 5.0 percent share. Income and transfer and recordation taxes are the most sensitive to economic and, increasingly, financial market conditions. By contrast, the property tax exhibits the least volatility.

In the late 1990s and early 2000s, the property tax stood in the shadow of the income tax in terms of growth. In fact, in FY99 measured by General Fund revenues, the income tax surpassed the property tax for the first time as the largest tax source in the County. After all, the low single-digit growth in property tax revenue was dwarfed by the double-digit growth in the income tax. But with all this explosive growth in the income tax also comes considerable volatility. For that reason, it is a welcome sign to observe that the property tax – the most stable of all revenue sources – is gaining considerable ground at a time that the income tax is experiencing considerable weakness. From a tax policy point of view, FY05 marks the second consecutive year in which the property tax regains its prominent position with growth in revenue – both in absolute and relative terms – well above the income tax. As a result, future revenue growth for the County is more balanced and less volatile, albeit with slower growth compared to the late 1990s.

Property Tax

Estimated FY05 property tax revenues of \$1,087.6 million are 7.8 percent above the revised FY04 estimate. Property tax revenues for FY05 are estimated based on the recommended rate schedule (levy year 2004) applied to the respective assessable bases. The general countywide rate assumed for FY05 is \$0.751 per \$100 of assessed real property, while a rate of \$1.878 per \$100 is levied on personal property. In addition to the general countywide tax rate, there are special district area tax rates. In aggregate, the property tax rate for both real and personal property in Montgomery County is estimated at \$1.073 per \$100 of assessed value in FY05. This rate may vary depending on the geographic location and number of special taxing district rates levied on the property. The 1990 Charter amendment (FIT) limits the growth in property tax revenues to the sum of the previous year's estimated revenue, increased by the rate of inflation, and an amount based on the value of new construction and other minor factors. This Charter limit, however, may be overridden by a super-majority vote of seven of the nine

members of the County Council. Growth in the previous calendar year's CPI-U for the Washington-Baltimore Consolidated Metropolitan Statistical Area is used to measure inflation. Since reassessments are growing faster than the rate of inflation for the third consecutive year, current rates generate revenues that are \$46.2 million above the Charter limit for FY05.

The Countywide total property tax assessable base is estimated to increase 9.1 percent from a revised \$93.9 billion in FY04 to \$102.4 billion in FY05. The base is made up of real property and personal property. In FY05, real property will amount to \$98.5 billion with the remaining \$3.9 billion in personal property. The total property base has fluctuated significantly over time, with an average of 10.0 percent growth during the late 1980s and early 1990s, followed by considerable deceleration during the rest of the 1990s with base growth generally close to 2.0 percent. The real property base changes as a result of additions to the base (i.e., new construction) and changes to the existing base (i.e., reassessments of existing properties). Reflecting stronger growth in new non-residential construction in 2001 and 2002 and a dramatic pick-up in reassessments, the base grew an estimated 9.1 percent in FY04 and is projected to grow 9.6 percent in FY05 – the largest growth since FY92.

The real property base is divided into three groups based on their geographic location in the County. Each group is reassessed tri-annually by the State Department of Assessments and Taxation (SDAT) which has the responsibility for assessing properties in Maryland. The amount of the change in the established market value (full cash value) of one-third of the properties reassessed each year is phased in over a three-year period. Declines in assessed values, however, are effective in the first year. Because of the different phase-ins of increases and declines during periods of modest reassessment growth, the reassessment cycle for a particular group may produce either no growth or a decline in the first year, followed by reassessment gains in the two subsequent years. Growth in reassessments for commercial and residential properties will jump 51.8 percent (or 17.3 percent annually) for Group I in FY05. This follows a 36.3 percent increase (or 12.1 percent annually) for Group III in FY04 and 21.8 percent growth (or 7.3 percent annually) for Group II in FY03. This growth shows a sharp improvement in recent years from most of the 1990s and early 2000s, and approaches the high double-digit growth in reassessments observed during the late 1980s.

There is a ten percent annual assessment growth limitation for residential property that is owner-occupied. As a result of this “homestead tax credit,” taxable reassessments in Montgomery County may not grow more than ten percent in any one year. Due to strong reassessment growth in the late 1980s and early 1990s, this assessment limitation credit topped the \$2.5 billion mark in FY92 (using the current 100 percent full cash value method). As growth in home prices decelerated in subsequent years, reassessments either declined or grew less rapidly. The

homestead tax credit reflects this trend, with the total credit dropping steadily to \$48 million in FY01. However, as the real estate market rebounded in the County over the past three years, home prices rose at a faster clip causing a sharp increase in reassessments. This is reflected in an estimated increase in the credit to \$1.33 billion in FY04 and a projected record \$3.91 billion in FY05. The outlook for the remainder of the six-year forecast period is for the homestead tax credit to continue the explosive trend through FY06 and begin to moderate towards the latter part of the decade.

Changes in the personal property base in FY04 reflect a weak regional economy producing a lower number of new businesses and associated investments, and exacerbated by recent tax law changes, including exemptions (e.g., manufacturing, Research and Development, and certain computer software) and depreciation rules (e.g., for computer equipment). Personal property includes public utility equipment, business furniture and equipment, and computers. According to SDAT, the corporate personal property base is projected to decrease 3.2 percent in FY05. The public utility portion, which accounts for 37.0 percent of the personal property base, is projected to decline 9.6 percent in FY04. The public utility personal property base, which accounted for slightly less than half prior to the electric deregulation process, now exempts 50 percent of personal property used to generate electricity. The 50 percent exemption was phased in during FY01 (25 percent) and completed in FY02 (50 percent), and exempts an estimated \$124 million in personal property. In order to prevent a revenue shortfall, the Maryland Legislature provides for an annual grant equal to the amount lost in revenues, which was \$2.8 million in Montgomery County in 2003. This forecast, however, does not incorporate any potential changes in the treatment of real property owned by public utility companies due to deregulation of that industry in future years or of future legislative changes in this grant.

The real property base of \$98.5 billion in FY05 is estimated to grow \$8.6 billion compared to a revised FY04 estimate, the result of \$1.3 billion in additions to the base from new construction, and \$9.9 billion in reassessments, offset by a \$2.6 billion rise in the homestead tax credit. The level of new reassessments is a near-term record high in the County and represents substantial growth in the property tax base. The growth in new construction is projected to moderate in FY06 and FY07, then is expected to grow from just above \$1.1 billion in the FY08 to well above \$1.5 billion by FY10. Similarly, reassessments remain the largest contributor to the base growth during this six-year forecast period. Reflecting a continued phase-in of the 51.8 percent jump for Group I, an equally robust 36 percent reassessment growth is expected for Group II in FY06 and 10 percent for Group III in FY07. As a result of these trends, the total assessable base is projected to steadily grow to 12.1 percent by FY07 before moderating to a growth rate of 4.0 percent by FY10.

Income Tax

Estimated FY05 income tax revenues of \$893.0 million are 4.0 percent above the revised FY04 estimate. This increase reflects the administrative changes to the income tax distribution to the County by the Comptroller of Maryland. Enacted in 1967 as a State-collected local surtax on the State income tax, the Montgomery County local rate began at 20 percent in 1967, increased to 35 percent in 1968, 45 percent in 1969, and was 50 percent of the State tax from 1970 through 1991. The local rate was increased from 50 percent to 55 percent for calendar 1992 and increased to 60 percent for calendar 1993. Effective tax year 1998, the State of Maryland enacted a five-year phased-in ten percent income tax cut, which results from a doubling of the personal exemption to \$2,400 and a drop in the tax rate from 5.0 percent to 4.75 percent. Due to a de-coupling of State and local income tax base calculations in 1998, income tax revenues for the counties and the City of Baltimore are not affected by this change. However, since tax liability for local tax computation purposes is different from the tax liability computation for State taxes, it required taxpayers to compute the 1998 local tax using the pre-1998 State rate and exemption schedules. Due to the increased complexity of computing the 1998 tax, the Maryland State Comptroller proposed an alternative method - one that simplified the tax return (including re-introduction of the "short-form") and maintained revenue neutrality for local jurisdictions. This new method computes a local tax rate, applied to Maryland State taxable income. Since local jurisdictions had different piggyback tax rates, it also required different income tax rate schedules for each local jurisdiction. In addition, annual increases in exemption amount reduced State taxable income through tax year 2002 - the year in which the State's tax relief program was fully phased in. Since State taxable income declined over the period 1999 through 2002, in order to maintain revenue neutrality, the local income tax rate increased slightly during that period. In 2002, once the exemptions were phased in, the local income tax rate remained unchanged. This method was enacted by the State Legislature and became effective tax year 1999. Montgomery County adopted a local income tax rate of 3.01 percent for tax year 1999. Note that, under the pre-1998 State tax relief scenario, the Montgomery County income tax rate would have been 3.00 percent (60 percent piggyback tax based on the State's 5.0 percent income tax rate).

Effective tax year 2000, the County reduced the "piggyback" tax rate from 60 percent to 58 percent. The impact of this rate reduction was to reduce revenues by \$8 million in FY00, \$21 million in FY01, growing to a full-year impact of \$29 million in FY02. As a result of this change, the new local income tax rate schedule became: 2.90 percent (2000), 2.92 percent (2001), and 2.95 percent (2002 and 2003). Effective with tax year 2004, the County Council increased the rate to the maximum allowed under State law (3.20 percent).

Total income tax revenues are estimated at \$868.8 million in FY05, which reflects a 2.5 percent increase from the revised FY04 estimate. Growth has been slowing over the past few years reflecting moderation in the trend. For example, adjusted for the rate cut, compared to FY99 (14.3 percent), FY00 (11.5 percent), and FY01 (8.4 percent), FY02 actual slipped to 7.5 percent continuing the moderating trend. In order to put this recent growth in perspective, measured by fiscal year, income tax revenues over the past six years through FY02 increased 86 percent. This phenomenal rate of growth dwarfs the mere 13 percent growth rate over the six-year period prior to FY97. Note that for purposes of these comparisons, data were adjusted to reflect the same income tax rate schedule. In addition, in FY99, income tax receipts surpassed the General Fund portion of the property tax in size and are, hence, the largest General Fund revenue source in the County. However, reflecting the impact from the 2001 recession and stock market decline, income tax revenues in FY03 fell 9.1 percent ending a six-year period of significant growth in income tax revenues.

Since, during any one fiscal year, the County receives income tax distributions pertaining to, at least, three different calendar tax years, it is important to analyze the data on a calendar year basis. During the 1990s, average annual tax liability in the County grew considerably slower in the first half (7.5 percent) of the decade compared to the second half (10.4 percent). During the second half of the 1990s, quarterly income tax distributions grew rapidly, with ten percent growth rates in the years 1997 through 1999. However, such growth decelerated rapidly to only 6.8 percent in 2000, 1.1 percent in 2001, and 1.4 percent in 2002. In addition to the quarterly distributions that represent withholdings and estimated payments, receipts from late filers who had underestimated their tax liability jumped to unprecedented levels during the late 1990s and 2000. For example, while a total of only \$37 million was received for tax year 1990, that amount gradually increased 450 percent when it peaked at \$204 million in 2000, but fell sharply in the two subsequent years to \$98 million by 2002. As taxpayers underestimate their tax liability from, generally, non-employment related earnings, additional payments are made when tax returns are filed. Taxpayers with more complicated tax returns, reflecting significant non-employment related earnings such as stock options and capital gains, increasingly file for an extension. Since taxpayers may file for two extensions (August 15th and October 15th), income tax receipts from late filers are distributed to the County in September and January. These late filer distributions reflect significant shifts in one-time tax liability and, thus, represent the most volatile component of the income tax. Even though, in aggregate, this tax liability may continue to shift over a longer period of time, the shift remains one time in the sense that tax liability changes as a result of the one-time exercise of a stock option or sale of stock at a price that is different from the original issuance or purchase. Once that action has been taken, gains (or losses) are recognized, with no addition to future tax liability. By contrast, employment

growth is an addition to the base that increases tax liability through wage growth in future years and is, thus, a more predictable indicator of future revenue growth.

With a disproportionately large share of wealthy taxpayers in the County, the correlation between stock market returns, through stock options and capital gains, and income tax receipts is particularly relevant in Montgomery County. However, in contrast to the effect of general stock market conditions impacting most taxpayers, wealthy taxpayers, including those selling significant ownership shares, may have taxable capital gains in years that all stock market indexes are negative or significant capital losses that carry forward during years of market appreciation such as 2003. Data for tax year 2000, a year that the NASDAQ plummeted 39 percent, the S&P 500 declined 10 percent in value, and quarterly statements for most investors showed declining portfolio balances, indicate that late filer payments jumped to a record \$204 million. Moreover, data for the top fifty taxpayers in that year show that taxable income jumped 67 percent in what was, by most accounts, not a particularly good year. Analysis of aggregate income tax data for the County suggests that realized taxable capital gains increased from \$1.5 billion in 1996 to an estimated record \$6.7 billion in 2000 but fell 44.3 percent in 2001 and an additional 37.8 percent in 2002 to an estimated \$2.6 billion. With the rebound in the stock market in 2003, realized taxable capital gains are expected to increase 7.5 percent to \$2.8 billion. As a result, in contrast to an 18 percent share of the State's employment base, the County had close to a 60 percent share of capital gains in Maryland and more than one percent of the entire nation during the record year of 2000. Capital gains as a share of the County's total income also increased from 6 percent in 1996 to 15 percent in 2000 but declined to an estimated 6 percent in 2002, the same share as in 1996. If, in contrast to the unprecedented gains in the stock markets, returns would have followed the historical growth path of 8 percent, and assuming a similar growth for realized capital gains, then tax liability for tax years 1998 through 2000 would have been close to \$260 million less than was currently received by the County in income tax revenues. An important conclusion is that, while non-employment earnings related to stock market performance are always volatile, such as in the periods 1995-99 and 2000-02, it is even more volatile when earnings increase dramatically for only a few taxpayers at a time that market forces reduce income for the vast majority of taxpayers, such as in 2000.

In addition to the impact on income tax receipts from non-employment related earnings from 1995 through 2000, the employment base improved substantially as well with the County adding 67,000 private-sector jobs offsetting a drop of 4,000 federal jobs. The County benefited from the record-long economic expansion during this period. At the same time, due to the tight labor market in the County, with close to two percent unemployment, wages were growing rapidly. However, between 2001 and 2002, the County's labor market deteriorated, with a total loss of approximately 550 private-sector jobs offset by an

increase in federal government jobs. With such a weaker economic growth trend, payroll employment is expected to continue to grow 1.6 percent in the initial year of the six-year forecast period, increasing to 1.7 percent from 2006 through 2010. Also, wage growth is expected to continue to expand just over four percent. With the projected growth in employment and wages and salaries, personal income is projected to grow between a low of 3.7 percent in FY07 to a high of 5.3 percent in FY10 with a six-year average of 4.6 percent per year during the six-year forecast period.

Reflecting a sharp downturn in all stock market returns starting in 2000, estimated payments for the State of Maryland, usually taxes paid for non-employment related earnings, indicate that following growth of 24 percent in the third quarter 2000, subsequent payments have been declining steadily and turned negative in the second quarter of 2001 and have remained negative through the second quarter of 2003. Moreover, since Montgomery County has a disproportionately large share of wealthy taxpayers, the sustained decline in estimated payments for the entire State of Maryland is more than likely to understate the drop in Montgomery County.

In FY04, the Maryland State Comptroller implemented an administrative change to the quarterly distribution of revenue collections to the County. The Comptroller has instituted a procedure expediting the submittal of withholdings by employers. Previous to the change, the Comptroller received employers' withholdings on the 15th day of the subsequent month. The new procedure requires employers to submit their withholdings within three business days. As a result, the Comptroller will accelerate the August distribution to the month of June.

A second administrative change proposed by the State's Department of Budget and Management (DBM) is to accelerate distributions of unclaimed withholdings, which are usually held for three years. The proposal will accelerate fifty percent of three years of unclaimed withholdings (tax years 2001, 2002, and 2003) along with the unclaimed withholdings from tax year 2000 into one distribution for June 2004.

A third administrative proposal is to change the unallocated percentage with a 3 percentage point reduction and use that reduction to accelerate the quarterly distributions. Essentially, the percentage point reduction does not change the total tax liability; rather it would accelerate the cash flow distributions for FY04 and FY05 quarterly distributions with the first offsetting reduction in the September 2005 distribution (FY06).

Transfer and Recordation Taxes

Estimated FY05 revenues of \$154.1 million are 3.7 percent below the revised FY04 estimate. This reflects an FY05 estimate of \$94.0 million in the transfer tax and \$60.1 million in the recordation tax not including the

portion for school construction. Transfer and recordation tax revenues have fluctuated greatly over time and are particularly sensitive to economic conditions especially real estate market indicators. Historically, between 80 and 90 percent of transfer tax revenue comes from the residential sector with the remaining share from the commercial sector. The transfer tax rate is generally one percent of the value of the property transferred to a new owner. This applies to both improved (i.e., building) and unimproved (i.e., land) residential and commercial properties. The recordation tax is levied when changes occur in deeds, mortgages, leases, and other contracts pertaining to the title of either real or personal property. Through FY02 the recordation tax was generally \$4.40 per \$1,000 of the value of the contract. Beginning in FY03, the recordation tax rate was raised to \$6.90 per \$1,000 of the value of the contract with the first \$50,000 of the consideration exempted from the tax for owner-occupied properties. The Council intended that the revenues attributed to the rate increase be used for school construction. Generally, both transfer and recordation taxes are levied when properties are sold. In a few cases, only one of the two taxes is levied. One example is refinancing of a mortgage, in which case there may be a change in the mortgage amount and, hence, recordation tax, but since there is no transfer of property, there is no transfer tax.

Residential transfer tax revenues are affected by the trends in real estate sales for existing and new homes. Real estate sales, in turn, are highly correlated with specific economic indicators such as growth in employment and wages and salaries, formation of households, and mortgage interest rates. Additionally, financial market conditions are increasingly affecting this trend, such as the beneficial impact that the "wealth effect," resulting from unprecedented gains from the stock markets, has had on the real estate market. The same holds true for the commercial sector, which is equally affected by business activity and investment, office vacancy rates, and financing costs. Even though economic conditions in the County were generally solid during the first half of the 1990s, the real estate market remained well below the fast growth trend observed in the late 1980s. In fact, following the 1990-91 recession the number of residential transfers continued to decline until that level dropped to a low of 14,800 transfers in FY97. The turnaround came at the onset of FY98 when the real estate market experienced a sharp rebound. At the close of FY98, residential transfers had jumped 15.4 percent, followed by an even stronger 19.5 percent growth in FY99. This trend was clearly unsustainable considering the County's demography with new household formation close to one percent annually. The volatility in revenues from the transfer and recordation is best illustrated in the trend since FY99. The growth rate in the number of transfers slowed to 7.5 percent in FY00 when the number of residential transfers peaked at 22,000, decreased 4.5 percent in FY01 (21,005), increased 12.5 percent in FY02 (23,640), and decreased 3.3 percent in FY03 (22,838). While the number of

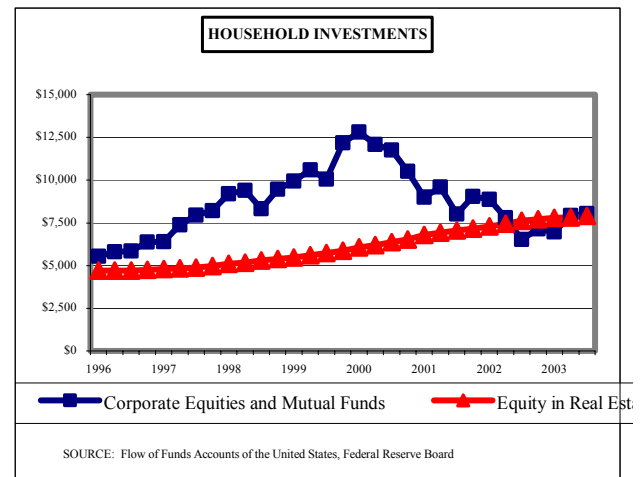
transfers exhibited significant volatility since FY99, the recent acceleration in home prices has had a significant effect on revenues. Due to the strong demand for new and existing homes, property values continued to increase.

During the late 1990s, the “wealth effect” benefited the real estate market allowing many residents to purchase homes at the high end of the spectrum. Since that time, record low mortgage rates have been the economic driver behind the demand for such homes. This is reflected in a 57 percent jump in the average residential transfer tax between FY97 (\$2,113) and FY03 (\$3,321)). Following the robust sales trend between calendar year 1997 and 1999, some moderation occurred in existing home sales in the period 2000-2003. One reason for the slower growth in existing home sales in the County is the shrinking inventory of homes – not a lack of demand. According to data from the National Association of Realtors, the number of existing home sales in the County, after increasing 10.0 percent (1997), 26.4 percent (1998), and 12.5 percent (1999), grew only 0.4 percent in 2000, 4.8 percent in 2001, 3.4 percent in 2002, and 2.9 percent in 2003. However, the deceleration in the growth of home sales was offset by the dramatic increase in prices. Since 2000, sales prices have experienced a meteoric rise from 8.4 percent in 2001, 16.6 percent in 2002, and 13.2 percent in 2003. Because of a continuation of the offset between sales and prices, revenues from the transfer tax are estimated to increase \$2.8 in FY05, or 3.2 percent, from the revised estimate for FY04.

The outlook for residential transfers remains robust, with an estimated 23,260 transfers in FY04, before moderating to 23,120 in FY05. As the accompanying chart shows, the decline in the ratio of household investments in corporate equities and mutual funds that began in early 2000 was offset by households’ investments in real estate equity. Although the stock market rebounded in 2003, household investment in real estate equity continued to grow. Such an adjustment to households’ investment portfolios has had a positive effect on the real estate market with an increase in demand for housing. With low mortgage interest rates, which are estimated to remain at historic lows, coupled with low unemployment, a modest rebound in employment, and higher home prices, the average transfer tax is expected to rise to just over \$3,800 by FY05.

At the same time that the residential sector improved sharply in FY98, revenues from non-residential properties began to fall in FY99 (-29%) and continued to fall through FY00 (-0.7%) to FY01 (-12.4%). However, based on a healthy commercial boom in calendar year 2001 and 2002, non-residential transfer taxes recovered in FY02 and FY03 as reflected in 10.2 percent and 10.0 percent increases, respectively, in revenues. However, such increases are followed by a sharp drop of 51.3 percent estimated for FY04, and a modest 3.3 percent projected increase in FY05. Part of the reason for the dramatic decline in the number and value of commercial transfers is the significant growth in new office space at a time that office

vacancy rates climbed to a six-year high while employment is estimated to grow well below rates observed in the late 1990s and 2000.



Recordation tax revenues generally track the trend in transfer tax revenues. More recently, the relationship increased to approximately 90 percent of transfer tax. Such an increase is due to a record high level of mortgage refinancing, which impact the recordation tax, but not the transfer tax. Mortgage interest rates have fallen 30.0 percent since May 2000; hence revenues from the recordation tax increased 35.7 percent in FY02, 63.0 percent in FY03, and an estimated 16.3 percent in FY04 to record levels. The current projection for FY05 reflects a decline of 12.8 percent from an all-time high base of \$97.0 million, which includes funds for school construction. Yet, with the projected decline in FY05, revenues from the recordation tax are expected to be the second highest. The combined transfer and recordation taxes are projected to reach \$154.1 million in FY05, excluding revenues for school construction, also the second highest behind the estimated \$160.1 million in FY04. This projection also assumes that the share of residential transfers increases to 95 percent over time, primarily due to rising home values. This is predicated on continued, albeit in the initial period, slower economic growth throughout the forecast period contributing to a further expansion of the employment base; household formation; and, hence, demand for new and existing homes in the County.

Energy Tax

Estimated FY05 revenues of \$75.9 million are 0.6 percent above the revised FY04 estimate. The fuel-energy tax is imposed on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas. Different rates apply to residential and nonresidential consumption and to the various types of energy. Effective FY04, the previous rate schedule was increased threefold by the County Council on May 14, 2003; the first such change since FY96 but scheduled to “sunset” in FY06. Since the rates per unit of energy consumed are fixed, collections change only with shifts in

energy consumption and not due to changes in the price of the energy product. Measured by the number of units, residential usage as a share of the total has risen modestly over time to 49 percent by FY03, with the remaining 51 percent for non-residential entities. Due to a different rate schedule, the share of receipts from residential users is approximately 30 percent of total collections, with the remaining share received from the non-residential sector. Measured for all energy types, the two largest sources of revenues are electricity (75 percent) and natural gas (23 percent). Since actual collections vary with weather conditions, the harsh winter weather experienced last winter increased usage of heating oil and natural gas in FY03, while the milder summer and winter weather forecasted for FY04 is expected to reduce electricity and natural gas usage for climate control systems. On the other hand, the impact of weather patterns is partly offset by an expansion of the user base with more businesses and households. With a "mild weather" outlook for the next fiscal year, the budget estimate for FY05 is projected to increase 0.6 percent.

Telephone Tax

Estimated FY05 revenues of \$32.4 million are 4.4 percent above the revised FY04 estimate. The telephone tax is levied as a fixed amount per line and per wireless telephone line. The tax on a traditional landline is \$2.00 per month, while multiple business lines (Centrex) are taxed at \$0.20 per month. The tax rate on wireless telephone lines is \$2.00 per month. Both sets of rates were increased by the County Council on May 14, 2003, and effective FY04. Prior to FY04, traditional landlines were taxed at \$0.925, Centrex lines at \$0.0925, and wireless at \$0.000 per line. This is the first change in the rate schedule for land lines since FY96 and the first change for wireless lines since FY00. Collections will vary as new lines are installed in households or at business locations. In FY97, the law extended the tax to include wireless communication devices (e.g., cellular phones, and pagers). Effective FY00, the tax on wireless communication devices was repealed. With business expansion combined with a surge in new home sales in the County in FY00 and FY01, and an increased demand for second phone lines for computer access to the internet, collections from the telephone tax grew 12.0 percent in FY00 and 4.1 percent in FY01. With the slowdown in the local economy during FY02 and FY03, collections declined 5.8 percent and 8.6 percent, respectively. With the enactment of the rate increases and a modest growth in businesses and households, revenues are expected to increase 4.4 percent in FY05 to \$32.4 million. Reflecting, in part, modest growth in new household and business formations, the outlook for FY06 through FY10 is for landlines and wireless and, hence revenues, to grow from 3.4 percent in FY06 to 4.1 percent by FY08. With a deceleration in the rate of household formations forecasted for FY09 through FY10, revenues are expected to increase 2.9 percent during both fiscal years.

Hotel/Motel Tax

Estimated FY05 revenues of \$13.7 million are 5.1 percent above the revised FY04 estimate. The hotel/motel tax is levied as a percentage of the hotel bill. The current tax rate of 7 percent in FY04 is also assumed for FY05. Collections grow with the costs of hotel rooms and room supply and are affected by the hotel occupancy rate in the County. Occupancy rates in the County are generally the highest in the spring (April and May) and autumn (September and October) as tourists and schools visit the nation's capital for such events as the Cherry Blossom Festival and school trips, while organizations often schedule conferences during such periods. During peak periods, many visitors to Washington, D.C. use hotels in the County, especially those in the up-county area where rates are generally lower than in the District. Reflecting improved economic conditions during the mid and late 1990s and the presidential primaries and presidential inauguration during 2000 and early 2001, respectively, spurred both business travel and tourism, hotel occupancy rates grew from just under 67 percent in FY96 to a record high 72.3 percent in FY01. These rates are considered high according to industry experts and well above both the national rate of 65 percent and the break-even point of 60 percent for most hotels. The second component – average room rate – grew 34.4 percent between FY96 and FY01 to a record \$102.60. The third component that makes up revenues – room supply – grew by five percent between FY96 and FY01. As a result total hotel revenues doubled between FY96 and FY01 to over \$13.1 million.

However in the aftermath of the terrorist attacks on September 11th and war on terrorism, business travel and tourism were reduced significantly in the greater Washington region. In an effort to stimulate hotel occupancy, hotels dramatically cut room rates thereby reducing revenues in FY02 by over \$2 million compared to FY01. A recent rebound in hotel occupancy during the first half of FY04 has allowed hotels to hold room rates steady, and recoup some of the losses made during FY02 and FY03. The expected increase in estimated revenues for FY05 can be attributed to a number of factors: a slightly higher occupancy rate than projected due to post-9/11 recovery of tourism and business and slightly higher room rates. Occupancy rates are expected to grow to 70 percent in FY05, attributed to the presidential election year and assuming no further terrorist attacks or prolonged terrorism alerts, while room rates are expected to climb to \$105.60 as a Countywide average, resulting in a 5.1 percent growth in the hotel/motel tax in FY05 which follows a revised estimate of 9.4 percent growth in FY04. Long-term estimates are tied to projected room occupancy and rate increases, partially reflecting the forecast of inflation and population growth that result in annual projected revenues through FY10 in the 4.5 percent to 6.3 percent range. The Montgomery County Conference and Visitors Bureau is, in part, funded through a 3.5 percent share of the hotel/motel tax.

Admissions Tax

Estimated FY05 revenues of \$3.3 million are 5.8 percent above the revised FY04 estimate. Admissions and amusement taxes are State-administered local taxes on the gross receipts of various categories of amusement, recreation, and sports activities. Taxpayers are required to file a return and pay the tax monthly while the County receives quarterly distributions of the receipts from the State. Montgomery County levies a seven percent tax, except for categories subject to State sales and use tax, where the rate is five percent. Such categories include rentals of athletic equipment, boats, golf carts, skates, skis, horses; and sales related to entertainment. Gross receipts are exempt from the County tax when a Municipal admissions and amusement tax is in effect. Coin and non-coin-operated amusement devices account for 24 percent of total collections, while other major categories include golf green fees, driving ranges and golf cart rentals (21 percent), motion picture theaters (37 percent), athletic events (e.g., the Kemper Open Golf Tournament), refreshments and merchandise sold where there is entertainment, and athletic facilities or equipment. The admissions tax is negatively impacted by motion picture theaters located in municipalities, such as the popular Regal Cinemas in Rockville that draw visitors away from non-municipal theaters. As a result of these trends, the cinema share of total admission taxes has fallen steadily from 40 percent five years ago to 27 percent in FY02 but rebounded to 37 percent in FY03 and the first half of FY04. Revenue growth for the period FY06 through FY10 is expected to range between 4.3 percent and 4.5 percent, reflecting modest population growth.

NON-TAX REVENUES

Non-tax revenues throughout all tax-supported funds (excluding Enterprise Funds, such as Permitting Services, Parking Districts, Solid Waste Disposal, and Solid Waste Collection Funds) are estimated at \$558.3 million in FY05. This is a \$43.5 million increase from the revised FY04 estimate, reflecting a 8.9 percent increase in public school funding and slightly higher receipts in most categories. Non-tax revenues include: intergovernmental aid; investment income; licenses and permits; user fees, fines, and forfeitures; and miscellaneous revenues, the largest of which is rental income.

General Intergovernmental Aid

General Intergovernmental Aid is received from the State or Federal governments as general aid for certain purposes, not tied, like grants, to particular expenditures. The majority of this money comes from the State based on particular formulas set in law. Total aid is specified in the Governor's annual budget. Since the final results are not known until the General Assembly session is completed and the State budget adopted, estimates in the March 15 County Executive Recommended Public Services Program are, generally, based on the Governor's budget estimates for FY05, unless those estimates assume a change in existing law. If additional information on the State budget

is available to the Executive, this information will be incorporated into the budgeted projection of State aid. For future years, it is difficult to know confidently how State aid policy may change. The projection does not assume that State aid formulas will necessarily remain in place. It is assumed that State aid will increase with either the projected rate of inflation, by an amount based on the projected increase in County population, or a combination of those two factors. The Recommended Budget for FY05 assumes \$26.3 million, or 6.3 percent, increase in Intergovernmental Aid above the revised FY04 estimate, of which 60.8 percent is allocated to the Montgomery County Public Schools, 7.2 percent to Highway User Revenue, 5.1 percent to Mass Transit, and 5.0 percent to Montgomery College. The increase is attributed to an estimated \$22.1 million increase to public schools. Total Intergovernmental Aid is estimated to total \$443.7 million in FY04 or 75.4 percent of all non-tax revenues.

Licenses and Permits

Licenses and permits include General Fund business licenses (primarily public health, traders, and liquor licenses) and non-business licenses (primarily marriage licenses and Clerk of the Court business licenses). Licenses and permits in the Permitting Services Enterprise Fund, which include building, electrical, and sediment control permits, are Enterprise Funds and thus not included in tax-supported projections. Modest long-term growth is anticipated in these revenues, because some are based on relatively static factors such as the number of businesses, while others reflect general economic activity. The Recommended Budget for FY05 assumes a 14.9 percent growth over the revised projections for FY04, resulting in \$12.1 million in available resources in FY05.

Charges for Services (User Fees)

Excluding intergovernmental revenues to Montgomery County public schools and college tuition, charges for services, or user fees, is the largest non-tax revenue source, especially when Enterprise Funds such as Solid Waste Collection, Solid Waste Disposal, Liquor Fund, M-NCPPC user fees, MCPS food service sales, and parking revenues are considered. Tax supported fee revenues come primarily from fees imposed on the recipients of certain County services including mass transit, human services, and recreation services and are included in the tax supported funds. Without rate increases, these revenues tend to show little growth although there is some variance because of weather, population changes, the economy, and changes in commuting patterns. However, it is the policy of the County to increase rates or fees to keep up with inflation. It is not always possible to achieve this goal for each fee, either because of market competition or because prices normally rise in rounded steps. The long-term estimates assume that rates will rise by 80 percent of projected inflation and that the volume of services for which fees are imposed will not change on a net basis. The Recommended Budget for FY05 assumes 11.4 percent

growth over the revised projections for FY04, resulting in \$44.2 million in available resources in FY05.

Fines and Forfeitures

Revenues from fines and forfeitures relate primarily to library and parking fines (excluding the County's four Parking Districts) and Photo Red Light citations. The Recommended Budget for FY05 assumes that fines and forfeitures will increase 33.7 percent over the revised projections for FY04, resulting in \$14.7 million in available resources in FY05. Most of the change is attributable to an increase in the photo red light citations and fees.

College Tuition

Although College tuition is no longer included in the County Council Spending Affordability Guideline Limits (SAG), it remains in the tax supported College Current Fund. Calculation of the aggregate operating budget is under the SAG Limits. Tuition revenue depends on the number of registered students and the tuition rate. The projection assumes enrollment, as projected, and assumes that the tuition rate will increase. While the Board of Trustees has not yet taken final action on a tuition increase, a three dollar per credit hour increase for County residents is assumed in this projection, based on the revenues in the Board's recommended budget.

Investment Income

Investment income includes the County's pooled investment and non-pooled investment and interest income of other County agencies and funds. The County operates an investment pool directed by an investment manager who invests all County funds using an approved, prudent investment policy as a guide. The pool includes funds from tax supported funds as well as from Enterprise Funds, municipal taxing districts, and other governmental agencies. Two major factors determine pooled investment income: (1) the average daily investment balance which is affected by the level of revenues and expenditures, fund balances, and the timing of bond and commercial paper issues; and (2) the average yield percentage which reflects short-term interest rates and may vary considerably during the year.

The revised FY04 estimate of pooled investment income of \$7.6 million assumes a 1.12 percent yield on equity and an average daily balance of \$665 million. The FY05 projected estimate of \$16.0 million assumes a modest improvement to a 2.30 percent yield and an average daily balance of \$686 million. Reflecting robust growth in revenues over the past few years, the amount of available funds for investments, measured by the daily cash balance, doubled between FY93 (\$437 million) and FY00 (\$890 million). Between FY01 and FY02, the estimated balance declined to an average of \$800 million. Using current revenue projections, the daily cash balance is expected to grow from \$686 million in FY05 to \$929 million by

FY10. Yields have fluctuated significantly over time. When the Fed tightened monetary policy in 1999 and 2000, yields jumped to 6.7 percent in the latter part of 2000 – a ten-year high. On a fiscal year basis, yield rates increased to 6.2 percent in FY01. However, as the economy weakened significantly in calendar year 2001, the Federal Open Market Committee (FOMC) of the Federal Reserve began a very accommodative monetary policy and cut the federal fund interest rate 12 times, reducing the rate from 6.5 percent at the onset of 2001 to just 1.25 percent by November 2002 – the lowest level since 1958. Also the discount rate was cut, falling to 0.75 percent by November 2002 – the lowest rate since 1948. Not surprisingly, investment income yields followed interest rates on their downward trend, with the yield falling from 6.6 percent in December 2000 to 1.5 percent in December 2002. This 77 percent drop in yield is the main reason for the 58 percent drop in investment income between FY01 and FY02. With better economic news suggesting that the economy will continue to grow in calendar year 2004, the interest rate environment has stabilized and further rate cuts are unlikely. However, considering the current low interest rates, as the economy begins to expand some increases by the FOMC are anticipated during the second half of 2004. As a result, yields are expected to climb to 2.30 percent in FY05 and eventually back to the County's historical yield of 5.50 percent by FY10.

Other Miscellaneous

The County receives miscellaneous income from a variety of sources, the largest of which are rental income for the use of County property, prior year encumbrance liquidations, and ambulance transportation insurance reimbursement. These three categories make up 74.1 percent of the total \$9.8 million projected for FY05. The projection for subsequent fiscal years assumes growth at the rate of inflation.

FY05 FEE AND FINE INCREASES*			
DEPARTMENT/FEE AND FINE	FY05 REVENUE INCREASE	METHOD OF CHANGE	NOTE
ENVIRONMENTAL PROTECTION			
New Water and Sewer Plan Review Fee	30,000	Executive Regulation - Method 3	New application fee for water and sewer category changes, the minimum application fee starts at \$200 ranging to \$2,000 depending on the number of lots to be reviewed and classification (residential/commercial)
MONTGOMERY COLLEGE			
Tuition Increase to offset decreased State aid	1,770,000	Board of Trustees Resolution	Per Credit Increase: \$3 for in-County resident/\$6 for State resident/\$9 for out-of-State resident
New Transportation Fee	TBD	Board of Trustees Resolution	New \$2 per semester shuttle bus fee for students and staff
Increase in Major Facilities Fee	TBD	Board of Trustees Resolution	Increase current semester fee of \$3 to either \$4 or \$5
MONTGOMERY COUNTY PUBLIC SCHOOLS			
Increase Adult Education and Summer School Fund fees	810,350	Board of Education Resolution	Increase tuition and fees to cover amount previously funded by a General Fund contribution (approximately 10%)
PUBLIC WORKS AND TRANSPORTATION			
Solid Waste Fees	2,048,410	Council Resolution	Single family charges per household increase from \$176.70 to \$186.85
Vacuum Leaf Collection Fee	753,590	Council Resolution	Single family charge per household increases from \$58.23 to \$67.78
Transfer Station Tipping Fee	7,066,680	Council Resolution	MSW tipping fee increases from \$48 per ton to \$56 per ton
MNCPPC			
Park Fund	52,000	Planning Board	Increase permit fees by 3%
RECREATION			
New Access Card Fee	450,000	Executive Regulation - Method 2	Implementation of new \$10 Access Card for recreation facility users
New Program Registration Fee	90,000	Executive Regulation - Method 2	Implementation of new Program Registration charge of \$2.50
TRANSIT SERVICES			
Ride On Fare Increases	2,124,360	Public Forum	10 cent increase to base fare from \$1.20 to \$1.30; 5 cent increase to Senior/Disabled base fare from \$0.60 to 0.65; 20 Trip Tickets increases from \$13 to \$21; Ride-About 2 week pass increases from \$12 to \$13
Taxi Fee Increase	503,470	Executive Regulation - Method 3	Implement new company certificate and vehicle permit fees and increase passenger vehicle licenses
GRAND TOTAL	15,698,860		

* All Increases are assumed to be effective July 1, 2004 except as noted. Revenues above do not include implementatic

TRENDS AND PROJECTIONS								
DEMOGRAPHIC AND PLANNING INDICATORS	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
POPULATION (Jan = Calendar Year)	918,000	931,000	942,000	954,000	966,000	978,000	989,000	1,000,000
Annual Increase	15,000	13,000	11,000	12,000	12,000	12,000	11,000	11,000
Population Growth Since 1996	11.6%	13.2%	14.5%	15.9%	17.4%	18.9%	20.2%	21.5%
County Resident Births (Prior Calendar Year)	13,150	13,200	13,250	13,300	13,350	13,400	13,450	13,500
HOUSEHOLDS (Jan = Calendar Year)	337,300	342,000	347,000	352,000	357,000	362,000	366,000	370,000
Household Annual Growth (%)	1.7%	1.4%	1.5%	1.4%	1.4%	1.4%	1.1%	1.1%
Household Growth Since 1996	10.5%	12.0%	13.7%	15.3%	16.9%	18.6%	19.9%	21.2%
Household Growth Since 1992	15.8%	17.4%	19.2%	20.9%	22.6%	24.3%	25.7%	27.1%
Household Size	2.72	2.72	2.71	2.71	2.71	2.70	2.70	2.70
RESIDENT EMPLOYMENT (Jan = Calendar Year)	495,100	503,000	512,000	521,300	529,100	536,000	543,000	553,000
Resident Employment Annual Growth (%)	1.1%	1.6%	1.8%	1.8%	1.5%	1.3%	1.3%	1.8%
Resident Employment Growth Since 1996	7.1%	8.8%	10.7%	12.8%	14.4%	15.9%	17.4%	19.6%
Resident Employment Per Household	1.47	1.47	1.48	1.48	1.48	1.48	1.48	1.49
Jobs in County	567,000	575,000	585,000	600,000	611,000	618,000	624,000	630,000
PERSONAL INCOME (\$ Millions)	\$49,500	\$51,500	\$53,900	\$56,500	\$58,600	\$61,300	\$64,000	\$67,400
Per Capita Personal Income	\$53,900	\$55,300	\$57,200	\$59,200	\$60,700	\$62,700	\$64,700	\$67,400
Annual Growth (%)	2.1%	2.6%	3.4%	3.5%	2.5%	3.3%	3.2%	4.2%
CONSUMER PRICE INDEX (CPI) - Fiscal Year	2.6%	2.7%	2.4%	2.3%	2.4%	2.5%	2.4%	2.3%
Inflation Growth (Fiscal Year) Since Nov. 1996 (%)	22.1%	26.8%	12.7%	8.0%	12.7%	17.4%	12.7%	8.0%
CONSUMER PRICE INDEX (CPI) - Calendar Year (%)	2.9%	2.5%	2.3%	2.4%	2.4%	2.5%	2.3%	2.4%
ASSESSABLE TAX BASE (\$ Millions)	\$86,635	\$94,066	\$102,397	\$114,364	\$126,955	\$138,990	\$146,158	\$151,989
Annual Growth (%)	5.9%	8.6%	8.9%	11.7%	11.0%	9.5%	5.2%	4.0%
Growth of Base Since 1992 (%)	44.8%	57.2%	71.2%	91.2%	112.2%	132.3%	144.3%	154.1%
Growth of Base Since 1996 (%)	26.2%	37.0%	49.1%	66.6%	84.9%	102.4%	112.9%	121.4%
INVESTMENT INCOME YIELD (%)	1.59%	1.12%	2.30%	3.50%	4.40%	4.95%	5.30%	5.50%
MCPS ENROLLMENT (Sept = Calendar Year)	138,891	139,203	140,718	142,688	143,844	144,545	144,963	145,622
Annual Growth (%)	1.5%	0.2%	1.1%	1.4%	0.8%	0.5%	0.3%	0.5%
Annual Increase (Decrease)	2,059	312	1,515	1,970	1,156	701	418	659
MONTGOMERY COLLEGE ENROLLMENTS	21,805	22,190	22,640	23,110	23,460	23,790	23,840	24,336
Annual Growth (%)	2.14%	1.77%	2.03%	2.08%	1.51%	1.41%	1.51%	1.51%
Full Time Equivalents (Sept = Calendar Year)	13,840	13,900	14,240	14,456	14,678	14,885	15,127	15,444
Annual Growth in FTE's (%)	2.71%	0.43%	2.45%	1.52%	1.54%	1.41%	1.85%	1.85%
MOTOR VEHICLE REGISTRATIONS	711,000	721,000	732,000	743,000	754,000	765,000	773,000	781,000
Automobile Registrations	614,000	623,000	632,000	641,000	650,000	659,000	666,000	673,000
Trucks and Other	97,000	98,000	100,000	102,000	104,000	106,000	107,000	108,000
Automobile Registrations per Household	1.820	1.822	1.821	1.821	1.821	1.820	1.820	1.819
Vehicle Registrations per Household	2.108	2.108	2.110	2.111	2.112	2.113	2.112	2.111

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

(\$ Millions)

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
USE OF RESOURCES	Approved FY04	Estimate FY04	% Chg. FY04-05	% Chg. FY04-05	Rec FY05	% Chg. FY05-06	Projected FY06	% Chg. FY06-07	Projected FY07	% Chg. FY07-08	Projected FY08	% Chg. FY08-09	Projected FY09	% Chg. FY09-10	Projected FY10
	5-22-03	3-15-04	Rec / Bud	Rec / Est	3-15-04										
1 Total Resources															
2 Revenues	2,633.9	2,714.8	7.8%	4.6%	2,840.3	5.6%	3,000.7	8.1%	3,244.7	7.6%	3,489.9	4.6%	3,651.5	3.8%	3,788.9
3 Beginning Reserves Undesignated	87.1	81.6	40.4%	49.8%	122.3	-35.6%	78.8	10.1%	86.8	16.0%	100.7	14.2%	115.0	8.1%	124.4
4 Beginning Reserves Designated	0.6	0.6	-100.0%	-100.0%	0.0		2.3		3.5		4.9		6.2		7.5
5 Net Transfers In	22.0	23.7	-156.8%	-152.7%	(12.5)	-280.0%	22.5	2.4%	23.0	2.5%	23.6	2.4%	24.2	2.3%	24.7
6 Total Resources	2,743.6	2,820.8	7.5%	4.6%	2,950.0	5.2%	3,104.3	8.2%	3,358.0	7.8%	3,619.1	4.9%	3,796.9	3.9%	3,945.5
7 \$ Change from prior Budget	161.6	238.7			129.2		154.3		253.7		261.1		177.8		148.6
8 Uses: Non-Agency															
9 Capital Investment (a)															
10 Debt Service: GO Bonds for all Agy's.	174.3	171.5	3.3%	5.0%	180.1	7.6%	193.8	8.4%	210.0	7.1%	224.9	3.3%	232.3	3.2%	239.8
11 Debt Service: Local Parks	4.4	4.4	-3.3%	-3.3%	4.3	3.4%	4.4	4.5%	4.6	2.7%	4.7	3.3%	4.9	5.6%	5.2
12 Debt Service: Leases	24.2	22.7	-1.5%	4.6%	23.8	1.7%	24.2	-42.4%	13.9	-2.4%	13.6	-3.2%	13.1	-8.6%	12.0
13 CIP Current Revenue (b)	28.7	34.6	12.5%	-6.7%	32.2	-11.4%	28.6	-47.5%	15.0	19.7%	17.9	-27.8%	12.9	-4.4%	12.4
14 CIP Paygo (b)	5.1	5.1	152.4%	152.4%	13.0	116.0%	28.0	-0.1%	28.0	7.1%	30.0	0.0%	30.0	5.3%	31.6
14a CIP Paygo Rec Tax (b)	1.1	1.1	-100.0%	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15 Sub-total Capital	237.8	239.4	6.5%	5.8%	253.3	10.1%	279.0	-2.7%	271.5	7.3%	291.2	0.7%	293.3	2.6%	301.0
16 Other Uses															
17 Set Aside: Potential Supplementals	0.0	0.0	n/a	n/a	0.0		0.0		0.0		0.0		0.0		0.0
18 Set Aside: Other Claims	0.0	10.7	n/a	n/a	0.0		0.0		0.0		0.0		0.0		0.0
19 Revenue Stabilization Fund	0.0	8.8	n/a	n/a	0.0		0.0		0.0		0.0		0.0		0.0
20 Sub-total Other	0.0	19.4			0.0		0.0		0.0		0.0		0.0		0.0
21 Reserves															
22 Revenue Stabilization Fund	87.2	95.9	10.1%	0.0%	95.9	0.0%	95.9	0.0%	95.9	0.0%	95.9	0.0%	95.9	0.0%	95.9
23 Reserve Undesignated	57.8	122.3	36.2%	-35.6%	78.8	10.1%	86.8	16.0%	100.7	14.2%	115.0	8.1%	124.4	8.5%	135.0
24 Reserve Designated	5.8	0.0	-60.8%	0.0%	2.3		3.5		4.9		6.2		7.5		5.8
25 Sub-total Reserves	150.8	218.2	17.4%	-18.9%	177.0	5.2%	186.3	8.2%	201.5	7.8%	217.1	4.9%	227.8	3.9%	236.7
26 Less Revenue Stabilization Fund	(87.2)	(95.9)	10.1%	0.0%	(95.9)	0.0%	(95.9)	0.0%	(95.9)	0.0%	(95.9)	0.0%	(95.9)	0.0%	(95.9)
27 Less Designated Reserve	(5.8)	0.0	-60.8%	0.0%	(2.3)		(3.5)		(4.9)		(6.2)		(7.5)		(5.8)
28 Sub-total Undesignated Reserves	57.8	122.3		-35.6%	78.8	10.1%	86.8	16.0%	100.7	14.2%	115.0	8.1%	124.4	8.5%	135.0
29 Total Uses: Non-Agency	301.5	381.1	(0.2)	(0.3)	334.4	10.4%	369.3	2.1%	377.0	9.4%	412.4	3.1%	425.2	3.9%	441.8
30 Uses: Available for Agency Services	2,442.1	2,439.7	7.1%	7.2%	2,615.6	4.6%	2,735.0	9.0%	2,981.0	7.6%	3,206.7	5.1%	3,371.7	3.9%	3,503.7
31 \$ Change from prior Budget	170.2	167.7			173.5		119.4		246.0		225.7		165.0		132.0

(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A3 Schedule).

(b) FY05-10 Paygo and CIP Current Revenue include CE Recommended CIP on Jan 15, 2004 with further changes.

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
(\$ Millions)

A KEY REVENUE CATEGORIES	B Approved FY04	C Estimate FY04	D % Chg. FY04-05	E % Chg. FY04-05	F Rec FY05	G % Chg. FY05-06	H Projected FY06	I % Chg. FY06-07	J Projected FY07	K % Chg. FY07-08	L Projected FY08	M % Chg. FY08-09	N Projected FY09	O % Chg. FY09-10	P Projected FY10
TAXES	5-22-03	3-15-04	Rec/Bud	Rec/Est	3-15-04										
1 Property Tax (less PDs)	977.6	1,001.0	10.4%	7.9%	1,079.7	11.2%	1,200.5	10.6%	1,327.6	9.2%	1,449.5	5.2%	1,524.5	4.0%	1,585.6
2 Income Tax	837.7	858.3	6.6%	4.0%	893.0	4.1%	929.9	5.8%	984.0	5.1%	1,034.5	5.1%	1,087.5	4.4%	1,135.8
3 Transfer Tax	78.6	91.1	19.6%	3.2%	94.0	4.8%	98.5	5.6%	104.0	4.5%	108.7	4.6%	113.6	4.7%	118.9
4 Recordation Tax	44.8	68.9	34.3%	-12.8%	60.1	3.5%	62.2	4.6%	65.1	1.4%	66.0	4.0%	68.7	3.9%	71.4
4a Recordation Tax Increase	17.8	28.1	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
5 Energy Tax	70.5	75.5	7.6%	0.6%	75.9	-64.1%	27.3	1.6%	27.7	1.6%	28.2	1.5%	28.6	1.5%	29.0
6 Telephone Tax	30.8	31.0	4.9%	4.4%	32.4	3.4%	33.4	3.6%	34.6	4.1%	36.1	2.9%	37.1	2.9%	38.2
7 Hotel/Motel Tax	13.5	13.0	1.3%	5.1%	13.7	1.3%	13.9	4.5%	14.5	15.6%	15.2	6.3%	16.1	5.3%	17.0
8 Admissions Tax	3.3	3.1	0.3%	5.8%	3.3	4.3%	3.4	4.4%	3.6	4.5%	3.7	4.3%	3.9	4.4%	4.1
9 Total Local Taxes	2,074.5	2,170.0	8.6%	3.8%	2,251.9	5.2%	2,369.0	8.1%	2,561.1	7.1%	2,741.7	5.0%	2,879.9	4.2%	2,999.8
INTERGOVERNMENTAL AID															
10 Highway User	22.3	22.1	43.5%	45.2%	32.1	-7.7%	29.6	1.1%	29.9	2.4%	30.7	2.6%	31.5	2.6%	32.3
11 Police Protection	12.7	13.0	14.2%	1.2%	14.5	1.3%	14.7	1.3%	14.9	1.2%	15.1	1.1%	15.2	1.1%	15.4
12 Libraries	3.7	3.7	3.0%	1.2%	3.9	1.3%	3.9	1.3%	4.0	1.2%	4.0	1.1%	4.0	1.1%	4.1
13 Health Services Case Formula	5.5	5.3	-3.7%	2.4%	5.3	2.3%	5.4	2.4%	5.5	2.5%	5.7	2.4%	5.8	2.3%	5.9
14 Mass Transit	27.4	27.4	-16.5%	2.4%	22.8	2.3%	23.4	2.4%	23.9	2.5%	24.5	2.4%	25.1	2.3%	25.7
15 Public Schools	249.8	247.7	8.0%	8.9%	269.8	11.9%	301.8	13.4%	342.3	15.5%	395.3	3.1%	407.4	1.8%	414.8
16 Community College	24.1	22.5	-7.1%	-0.4%	22.4	4.9%	23.4	2.5%	24.0	2.5%	24.6	2.5%	25.2	2.5%	25.9
17 Direct Reimbursements	17.2	27.7	43.8%	3.0%	24.7	2.9%	25.4	3.0%	26.2	3.1%	27.0	3.0%	27.8	2.9%	28.6
17a Direct Reimb: DSS Services	37.0	35.9	-3.0%	-0.1%	35.9	0.0%	35.9	0.0%	35.9	0.0%	35.9	0.0%	35.9	0.0%	35.9
18 Other	10.0	10.5	10.7%	3.0%	11.1	2.9%	11.4	3.0%	11.7	3.1%	12.1	3.0%	12.5	2.9%	12.8
19 Subtotal State Aid	409.6	415.7	8.0%	6.4%	442.3	7.4%	474.9	9.2%	518.4	10.9%	574.8	2.7%	590.4	1.8%	601.4
20 Federal Aid	1.8	1.9	-23.1%	1.5%	1.4	1.5%	1.4	1.5%	1.4	1.6%	1.5	1.5%	1.5	1.4%	1.5
21 Total Intergovernmental Aid	411.5	417.5	7.8%	6.3%	443.7	7.3%	476.3	9.1%	519.8	10.9%	576.3	2.7%	591.9	1.8%	602.9
FEES AND FINES															
22 Licenses & Permits	10.9	10.5	10.9%	1.5%	12.1	1.5%	12.3	1.5%	12.4	1.5%	12.6	1.5%	12.8	1.5%	13.0
23 Charges for Services	42.6	39.6	3.8%	1.9%	44.2	1.8%	45.0	1.9%	45.8	2.0%	46.8	1.9%	47.7	1.8%	48.5
24 Fines & Forfeitures	19.0	11.0	-22.6%	1.6%	14.7	1.6%	14.9	1.6%	15.2	1.6%	15.4	1.6%	15.7	1.6%	15.9
25 Montgomery College Tuition	51.6	50.4	3.2%	5.9%	53.3	8.0%	57.6	3.3%	59.4	3.3%	61.4	3.3%	63.4	3.3%	65.5
26 Total Fees and Fines	124.1	111.5	0.1%	11.5%	124.3	4.4%	129.7	2.4%	132.9	2.5%	136.2	2.5%	139.5	2.5%	143.0
MISCELLANEOUS															
27 Investment Income	13.6	4.8	-22.6%	119.8%	10.5	47.8%	15.5	32.5%	20.6	22.0%	25.1	16.4%	29.3	9.9%	32.1
28 Other Miscellaneous	10.2	11.0	-3.6%	2.4%	9.8	2.3%	10.1	2.4%	10.3	2.5%	10.6	2.4%	10.8	2.3%	11.1
29 Total Miscellaneous	23.8	15.8	-14.4%	29.0%	20.4	25.8%	25.6	20.7%	30.9	15.5%	35.7	12.3%	40.1	7.8%	43.2
30 TOTAL REVENUES	2,633.9	2,714.8	7.8%	4.6%	2,840.3	5.6%	3,000.7	8.1%	3,244.7	7.6%	3,489.9	4.6%	3,651.5	3.8%	3,788.9
31 \$ Change from prior Budget	230.1	311.0			125.5		160.5		244.0		245.3		161.5		137.4

County Executive's Recommended FY05-10 Public Services Program Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App FY04	Estimate FY04	% Chg. FY04-05	% Chg. FY04-05	Rec FY05	% Chg. FY05-06	Projected FY06	% Chg. FY06-07	Projected FY07	% Chg. FY07-08	Projected FY08	% Chg. FY08-09	Projected FY09	% Chg. FY09-10	Projected FY10
Total Resources	5-22-03		Rec/Bud	Rec/Est											
Revenues	2,633.9	2,714.8	7.8%	4.6%	2,840.3	5.6%	3,000.7	8.1%	3,244.7	7.6%	3,489.9	4.6%	3,651.5	3.8%	3,788.9
Beginning Reserves Undesignated	87.1	81.6	40.4%	49.8%	122.3	-35.6%	78.8	10.1%	86.8	16.0%	100.7	14.2%	115.0	8.1%	124.4
Beginning Reserves Designated	0.6	0.6	-100.0%	-100.0%	0.0	0.0%	2.3	54.0%	3.5	37.6%	4.9	27.5%	6.2	21.6%	7.5
Net Transfers In	22.0	23.7	-156.8%	-152.7%	(12.5)	-280.0%	22.5	2.4%	23.0	2.5%	23.6	2.4%	24.2	2.3%	24.7
Total Resources Available	2,743.6	2,820.8	7.5%	4.6%	2,950.0	5.2%	3,104.3	8.2%	3,358.0	7.8%	3,619.1	4.9%	3,796.9	3.9%	3,945.5
Non-Agency Uses of Resources	301.5	381.1	10.9%	-12.3%	334.4	10.4%	369.3	2.1%	377.0	9.4%	412.4	3.1%	425.2	3.9%	441.8
Available to Allocate to Agencies	2,442.1	2,439.7	7.1%	7.2%	2,615.6	4.6%	2,735.0	9.0%	2,981.0	7.6%	3,206.7	5.1%	3,371.7	3.9%	3,503.7
Agency Uses: Recommended															
Montgomery County Public Schools (MCPS)	1,388.9	1,380.2	5.7%	6.4%	1,468.0	7.6%	1,580.0	7.0%	1,689.9	3.6%	1,751.1	0.9%	1,767.3	0.6%	1,778.4
Montgomery College (MC)	145.4	139.0	4.1%	8.9%	151.4	7.3%	162.5	5.2%	170.9	1.6%	173.6	1.6%	176.5	1.6%	179.3
MNCPPC (w/o Debt Service)	70.2	71.2	5.8%	4.4%	74.3	4.7%	77.8	0.1%	77.9	0.0%	77.9	0.0%	77.9	0.2%	78.1
MCG	837.6	849.3	10.1%	8.6%	921.9	5.3%	971.2	3.4%	1,004.4	1.4%	1,018.1	1.1%	1,029.0	0.8%	1,037.0
Total Agency Uses	2,442.1	2,439.7	7.1%	7.2%	2,615.6	6.7%	2,791.5	5.4%	2,943.1	2.6%	3,020.7	1.0%	3,050.7	0.7%	3,072.8
Subtotal Uses (Non-Agency + Agency)	2,743.6	2,820.8	7.5%	4.6%	2,950.0	7.1%	3,160.8	5.0%	3,320.2	3.4%	3,433.1	1.2%	3,475.9	1.1%	3,514.6
Tier 1															
(Gaps)/Available at Major Known Commitments						0.0	(56.5)	37.9	186.0	321.0	430.9				
Tier 2															
Other Expenditure Pressures							0.0	13.1	79.7	152.6	223.7				
Government Accounting Standards Board Statement Number 33 (GASB 33)							0.0	156.3	160.6	164.9	169.2				
(Gaps)/Available with Other Expenditure Pressures and GASB 33						(56.5)	(131.6)	(54.3)	3.4	38.0					
Unspecified Reductions						56.5	131.6	54.3	n/a	n/a					
(Gaps)/Available with Unspecified Reductions						0.0	0.0	0.0							

Assumptions:**Tier 1:**

- Projected Agency Uses for FY05-10 for MCPS and MC are based on "Maintenance of Effort" (MOE) requirements plus the estimated cost of labor agreements for FY06-07.
 - For MCPS, MOE requires the same local contribution per pupil in each year. Additional State and Federal aid as well as miscellaneous revenues are also assumed.
 - For MC, MOE is the same local contribution amount as in the previous year. Additional State aid at current formulas, miscellaneous revenues, and additional tuition revenues are also assumed.
- Projected Agency Uses for FY05-10 for MNCPPC and MCG are based on "Major Known Commitments" (MKC), e.g., executed labor contracts, operating budget impacts from capital projects, and other programmatic commitments by elected officials.
- The County's contract with the International Association of Firefighters (IAFF) expires at the end of FY05.
 - MNCPPC's contract with MCGEO expires at the end of FY06.
 - The following contracts will expire at the end of FY07:
 - The MCG contract with the County Fraternal Order of Police (FOP) Lodge #35 and Municipal, County Government Employees Organization (MCGEO) Local 1994;
 - It is assumed here that the Board of Education's contract with the Montgomery County Education Association, Montgomery County Council of Supporting Services Employees, and The Montgomery County Association of Administrative and Supervisory Personnel (MCAASP) expires at the end of FY07.
- Tier 2: Includes "Other Expenditure Pressures" which are estimated future costs such as service improvements, potential costs increases and other non-mandated expenditures. Tier 2 also includes the estimated cost of compliance with GASB 33, pre-funding post-employment group insurance benefits. GASB 33 is still in draft form and is not scheduled to take effect until FY07.
- All Revenues are projected at current rates and assume the Council will vote to override property tax limitations in Section 305 of the County Charter.
- Per Council Resolution 15-172, the Fuel Energy Tax is scheduled to sunset at the end of FY05 which will result in the loss of over \$48 million in tax revenues.